Special Section

Health & Beauty Aids

Fringe-Classification Sales Maintain Dept. Growth

Special DSN H&BA Report

Strong sales gains in some fringe health-and-beauty-aid classifications have maintained department growth, while skin and hair care product sales have slowed to consolidate advances made last year.

Diet supplements and vitamins are getting more shelf space and square footage at many chains, and sunscreens and other suntan preparations are expected to repeat last year's success. But shampoo assortments are being trimmed, as consumers become more price- and brand-conscious, and lotions (which did not benefit from a wealth of new product introductions, as hair care did in 1979) were flat early in 1980.

T.G. & Y., Venture and S. E. Nichols are three chains where shampoo assortments have been trimmed, coming down from the wide assortments offered last year during the hair-care boom. An exception to this trend is in conditioning products, which have maintained their strength (but still get only about 50% of the market), and henna preparations, which many chains are experimenting with—some in bulk displays set in the aisles.

Gold Circle reports hair care "well ahead" of the rest of the department, but that may be because the chain benefited less than others from the surge in 1979.

Franchised cosmetics have also played a large role in building sales per square foot at many tradeup chains, and at some more traditional chains like Jamesway and Magic Mart.

Upscale displays of major brands like Max Factor, Revlon and Bonne Bell have produced good results for most of the tradeup chains, and have added their 40% margins to the generally improving gross margin results in H&BA.

Discount Store News research shows that H&BA departments have remained virtually the same size since 1974 (see chart, below), with a slight drop in average annual turns from 4.7 10 years ago to 4.3 in 1979. But inclusion of higher-ticket, higher-margin goods such as franchised cosmetics (as well as inflation) has pushed sales per square foot up 150% during the last decade, 5.5% in the last year, and helped boost the gross margin almost 10% at the same time.

Top-of-the-line imports like Chanel, Nina Ricci and Cardin remain unavailable to most discounters on a direct basis, and provide only a 20% margin when purchased through diverters.

The franchised cosmetics and fragrances vary in assortment according to season—Venture's assortment in upstairs fragrances jumps from 10-12 to 30 or more for Christmas, Father's Day and Mother's Day.

Discount retailers are wary of manufacturers making demands on them to carry the full line, and are cautious when the program is fixturized, forcing them to carry inventory that may not get the turns available when they cherrypick.

Cherrypicking the assortment, however, moves the discounter lower on the suppliers' priority list, and may make it difficult to obtain the best-selling goods. With some manufacturers (Revlon was cited by some), taking a fully fixturized merchandise assortment pays off, because it dresses up the department and "it all sells," according to a buyer at Venture.

Trial sizes will get a big play at many discount stores this summer, since so many are high-impulse seasonal lines. The fast turns and high gross margins available in trial-size products have not convinced all merchandisers to make a strong commitment, however—they cite the relatively high handling cost and low tickets. But other chains—S. E. Nichols, for example—are moving into permanent trial-size displays to create excitement and encourage exposure to new products.

FedMart's Torrance, Calif., store includes this endcap and 8-ft. section for vitamins and diet supplements, a category with high growth potential. (DSN photo)

Ad/Promo Push, Burn Concerns Should Boost Sunscreen Sales

Nationwide DSN Report

Increased advertising and promotional support, and growing consumer awareness of the hazards of excessive exposure to the sun are expected to boost sales of sunscreens this spring and summer.

While screens have not formerly been strong H&BA sellers, because people wanted to get deep tans, increased consumer awareness is prompting many retailers to boost their assortment in the category.

Jamesway has increased its merchandising of the screening products. Venture recently experienced a 40% gain in sales, attributed, by a buyer for the chain, to stepped-up media promotions.

Regional factors and weather play a large role in determining a chain's sunscreen/tanning lotion mix, with Sunbelt and resort-area stores getting the lion's share of sales.

Basic mixes dominate the Northern and inland stores. T.G. & Y. and K mart, for example, place heavy emphasis on Coppertone (which one buyer estimated did 70% of T.G. & Y.'s business). K mart pushes private label goods mixed with major national brands.

The merchandise mix at S. E. Nichols is varied by region, with some boutique-style lines doing well in summer resort areas, but highly advertised national brands dominate chainwide.

This endcap at Bradlees' Chelsea, Mass., store demonstrates the emphasis placed on sunscreens, which are expected to do well again this year. (DSN photo)

In Last Five Years

Margins, Sales Per Sq. Ft. Rise Sharply

While health and beauty aids department sizes and turns have remained static, with little or no movement up or down from year to year, sales per square foot and margins have risen sharply.

The 50% gain in average sales per square foot since 1974, and the more recent 5.5% and 9.5% gains in sales per square foot and gross margins, respectively, show the impact of higher-ticket, higher-margin lines like franchised cosmetics that are becoming staples at tradeup chains including Venture, Gold Circle, Target and Bradlees.

Discounters are able to maintain department-store margins of 40% on such lines as Revlon, Max Factor and Bonne Bell, now purchased direct by most chains. The impact on sales per square foot and gross margins helps offset current stagnation and heightened price-consciousness in such basics as hair care and lotions.

	1970	1974	1975	1976	1977	1978	1979	10-year change	5-year change	'78 vs. '79
Dept. Size (sq. ft.)	2,000	2,243	2,243	2,227	2,227	2,235	2,235	+11.8%	– 0.4%	NC
Annual Turns	4.7	4.4	4.1	4.4	4.2	4.3	4.3	– 8.5%	– 2.3%	NC
Volume per sq. ft.	—	$128	$140	$152	$166	$182	$192	—	+50.0%	+5.5%
Initial Markup	28%	26%	26%	27%	26%	28%	29%	+ 3.6%	+11.5%	+3.6%
Gross Margin	24%	23%	21%	22%	21%	21%	23%	– 4.2%	NC	+ 9.5%
Company Run	82%	89%	89%	92%	93%	95%	95%	+15.9%	+ 6.7%	NC

NC—no change

Source: DSN research

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Specialty Chain Census: Pp. 7-20

Discount Store News®

THE NEWSPAPER OF THE DISCOUNT DEPARTMENT STORE INDUSTRY

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Sales Unaffected by Credit Crackdown . . . So Far

Nationwide DSN Report

More than a month after the Government announced its plan to start drawing shut the purse strings of the nation's overextended consumers with a series of credit controls, few discounters reported seeing any signs of a slowdown—either on staple goods or big-ticket merchandise.

Still, at presstime, the Crocker National Bank of San Francisco had already announced that it would raise its annual interest rates on consumer loans to as high as 24% and its finance charge on credit cards as high as 21%, after June 1. Bank of America, the country's largest bank, unveiled plans to ask cardholders for a $12 annual membership fee, effective June 5; and Citibank raised the cost to member merchants extending credit on its Visa cards and MasterCards from 4.3% to 5.3%.

All of that had discounters admitting they could be feeling the pinch by fall.

On another front, the Federal Reserve ruled March 14 that lenders must set aside 15% on outstanding balances of new credit excluding secured loans.

General Electric Credit Corp., which finances store credit cards for a number of discounters, including Zayre and Woolco, said that the 15% reserve requirement shouldn't be any problem for the next few months as receivables tend to decline during the summer.

Receivables should start to go above the March 14 base period in late summer and early fall, a spokesman said, and GECC was "working on plans to help ease the pain after stores reach the base period level."

But GECC, as the financial party, will be responsible for meeting the 15% requirement, discounters said. A Zayre executive noted that the financial company would have to consult

(Continued on page 4)

Consumer Financing, Surcharge Problems in Major Appliances

Nationwide DSN Report

The consumer credit crunch has created uncertainty in the major appliance market, but any downturn in sales isn't expected to become evident until the fall.

Two big problems face the handful of discounters (including K mart, Woolco, Nichols, Jefferson, Times Square Stores, FedMart and Zodys' lessee Wards) that carry major appliances. The concerns are (a) finding a credit source for customers who want to buy the high-ticket brown and white goods; and (b) paying the surcharge now being charged retailers by some consumer credit companies on time payment plans.

The Association of Home Appliance Manufacturers had forecast that manufacturers' shipments of all types of white goods this year would total 32.9 million units, down slightly from the 33.2 million shipped last year. An association executive said an updated forecast would be issued sometime this month.

The first quarter's actual results showed January shipments up 11%, February up 3% and March down 11%.

The executive said that the March decline could indicate some weakness but it was too early to tell because "it's not unusual to have month-to-month swings up or down."

A FedMart executive noted that there hasn't been any falloff in sales. The credit crunch might help discounters, he added, as consumers could turn to discounters because they charge lower prices than other major appliance retailers.

A Times Square Stores executive added: "So far there hasn't been any signs of weakness in major appliance sales. As the cost of money goes up, however, you can expect a drop."

Any drop that does occur wouldn't become evident until around September, a Nichols executive said. "The spring and summer aren't the biggest seasons for major appliance sales," he explained, "and at this stage there haven't been any signs of a downturn."

Some K marts have had to find new credit sources for the time payment plans used by consumers because some finance companies have dropped financing of this type.

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27 Remain of 41 in '79

Gibson's Shutters 7 Company-run Stores

SEAGOVILLE, Tex.—In a move designed to help keep its remaining stores afloat, Gibson's is closing even more company-operated units.

The recent closings leave Gibson's with only 27 stores still owned and operated by headquarters (at midyear last year it owned and operated 41).

"This was done to reinforce our financial structure," said Art Scateni, vp of advertising and sales promotion. "These were marginal units. If you are not getting the turns on inventory dollars in an era of 20% money, you can't hold the marginal stores."

The closings will knock nearly $15 million from the company's volume, by DSN's estimate, pulling Gibson's sales from owned units well under $100 million a year.

(Gibson's also franchises its name to over 350 independent operators.)

Scateni said Gibson's "will put the money into the stores that are performing for us. This will help them and will aid our cash flow."

The stores being closed are in Fort Worth (three), Terrell and Greenville, Tex.; Longmont, Colo., and Rosewell, N.M.

Gibson's owns most of its store sites, and it will be the company's option to lease or sell the locations. Scateni emphasized that the closings were not part of a move to abandon discount retailing at Gibson's.

The necessary evil of closing stores is largely a result of stiff competition from K mart, Target and Wal-Mart, according to store managers and local observers.

Wal-Mart, particularly, often chooses sites across the street from Gibson's units and man-

(Continued on page 27)

Early Easter Hops Up Biz At Many Discount Chains

Nationwide DSN Report

Spring sales at many discount department store chains showed the impact of an early Easter selling season, with double-digit increases reported by Jamesway, K mart, Zayre, Gaylords, Caldor and Dayton Hudson's "low-margin" group: Target and Lechmere.

Venture's parent May Department Stores reported an 8.7% increase, with Venture recording a slightly larger gain of 9.3%. Woolworth's sales, which did not include the heavier volume days of Easter week, rose 7.4% over the same period last year.

(All figures are for the four- or five-week period ended in late March or early April.)

At G. C. Murphy, where the store count has dropped from 481 to 465 since last year, sales rose 3.9%. Vornado, where the store count has also dropped

(Continued on page 27)

Zodys promoted major appliances as part of its grand reopening promotion last month for its Montebello, Calif., unit. Lessee Wards runs the department. (DSN photo)

Zayre Boosts Sherman, Hollis

FRAMINGHAM, Mass.—Malcolm Sherman, executive vice president and general merchandise manager, has been named executive vice president and general manager of Zayre stores.

Peter Hollis, vice president and senior merchandise manager, was appointed senior vice president and general merchandise manager.

Sherman, who will retain supervision of Zayre's merchandising, adds to his responsibilities the sales operations division of the company. The 48-year-old executive has been with the chain for 12 years, having first become a vice president in 1971 and serving as executive vice president since 1976.

Hollis, 36, will oversee the merchandising for Zayre's 254 stores, the Netco apparel buying subsidiary and Zayre Fabrics Inc. He has been with the company since 1969, becoming a vice president in 1976.

Malcolm Sherman
Promoted at Zayre.

Housewares: Discounters No. 1, Catalogers Gain

CHICAGO—Discounters are still No. 1 in housewares, while catalog showrooms and drug stores have increased their market shares.

Discounters accounted for 29% of manufacturers' total dollar sales to retailers in 1979, compared to 33% in 1978.

Catalogers had a 12% share and drug stores 10% in 1979, compared to 9% and 5%, respectively, in 1978.

Those were among the findings of the 13th annual National Housewares Manufacturers Association industry survey.

The discounters' share didn't include purchases from wholesalers such as housewares/hardware distributors, so that the total amount of housewares sold by discount stores was much higher than the 29% share reported in the survey.

Retailers, overall, accounted for 74% of manufacturers' sales, up three percentage points from the 71% share reported in last year's survey.

The wholesalers' share fell to 26% from 29%, reflecting the growing trend of discounters and other retailers to buy direct as much as possible, especially on nonelectrics.

The survey listed housewares manufacturers' sales in 1979 at $15,579,000,000, up 15.6% from $13,479,000,000.

Retailers' share in dollars amounted to $11,528,460,000, up 20.5% from $9,570,090,000.

The wholesalers' dollar volume was $4,050,774,000, up a slight 3.6% from $3,908,-910,000.

(Continued on page 22)

Specialty Chain Census

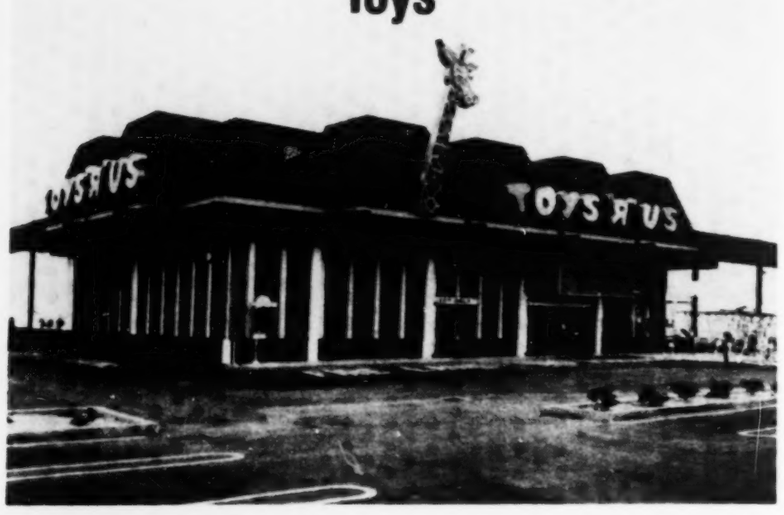
A Stronger Force

Specialty chains are becoming a stronger force in the hard lines marketplace.

Lower operating costs because of the generally smaller stores, less frequent stock-outs because of the depth of merchandise, and fewer customers taking a walk because of the wide assortment add up to very tough competition in toys, automotive, sporting goods, H&BA and consumer electronics.

DSN's analysis of each specialty category charts the leading chains in each case, and details expansion plans.

Toys



High-Flying Toys 'R' Us Is Wary of Petrie Takeover

SADDLE BROOK, N.J.—Toys 'R' Us remains the undisputed king of the specialty toy retailers, yet its outstanding success is also the source of worry—of a possible takeover by the women's apparel specialty retailer Petrie Stores.

The Secaucus, N.J.-based Petrie began to acquire Toys 'R' Us stock at the end of 1978 and continued throughout last year. Petrie now owns 23% of the outstanding stock, amounting to 2.03 million shares.

Petrie's interest in the toy chain is understandable; from 1974 to the present, Toys 'R' Us has recorded an average compound annual growth rate in excess of 25%. Last year, the chain's sales volume was $480 million, an amazing 37.5% increase from the year-before volume of $349 million.

Toys 'R' Us chairman and founder Charles Lazarus, who has been opposed to takeover in the past, has an escape clause in his contract, as do three other senior members of the chain's management.

This clause states that Lazarus can terminate his employment contract six months after any buyer acquires 30% or more of Toys 'R' Us stock. If (and only if) he exercises his option, the other management members with similar clauses may also exercise their option. All would be eligible for a year's compensation after their termination with the company.

It is still possible that Petrie wants the stock for investment purposes only. Securities analysts at

(Continued on page 8)

Consumer Electronics

Computer Outlets Spark Radio Shack Sales to $1.2B

FORT WORTH—Radio Shack, leader in its specialty field, is on an upswing with no downturn in sight. And when it comes to consumer electronics, president Lewis Kornfeld does not think discounters can jump on the success bandwagon.

The company's growth—reflected in a 12% increase in sales in 1979 to $1.2 billion, and an 18% increase in this year's fiscal third quarter to $739 million—has come from its new computer-oriented outlets. These centers offer Radio Shack computer systems to businessmen. Kornfeld said the trained sales and service personnel, which he calls the keys to consumer electronics sales, are an advantage unique to specialty chains like Radio Shack, and not offered to discounters.

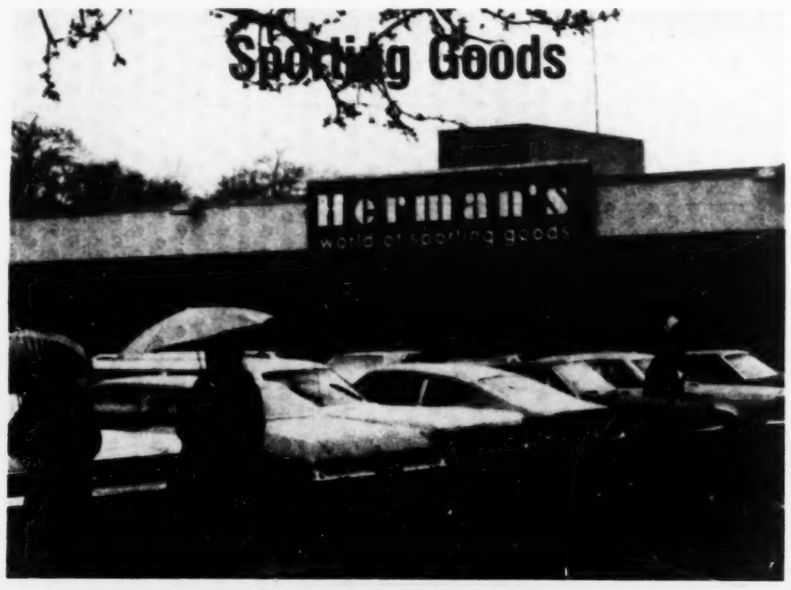
Not unique are the financial worries that come with paying for high-ticket inventory in these inflationary times. Kornfeld said borrowing money at 20% to purchase inventory is now one of the company's major concerns.

Earlier in its history, Radio Shack financed expansion through franchising arrangements. More recently, however, it found them largely unprofitable. It hasn't granted one in eight years.

"Franchises, which for us first looked like a relatively low-cost way to grow, looked later like an inhibitor, policywise," Kornfeld said. "We haven't tried to cut them out; we offered them a different arrangement. The hard core [1.8%] stayed."

(Continued on page 9)

Sporting Goods



Herman's Slows Expansion as Mild Winter Trims Sales

CARTERET, N.J.—Herman's, still the largest sporting goods specialty retailer in the country by volume, is slowing down its expansion rate of the previous two years for 1980.

After adding a dozen stores two years ago and 19 last year, Herman's plans to open only six this year. The lower expansion rate will place less of a strain on Herman's cash flow.

The slowdown in expansion plans accompanies a slowdown in the growth rate of sales. While the store base increased 28% during the last year at Herman's, sales were up only 14%.

Sales at the 88-unit division of W. R. Grace, a New York-based conglomerate, were $195 million last year. Year-before sales at Herman's were $171 million.

W. R. Grace chairman Felix Larkin admitted in a report to shareholders that "Herman's had a difficult year as mild winter weather and gasoline shortages plus the cost of store openings adversely affected sales and profit performance."

While the openings last year included entry into Pittsburgh and Columbus, Ohio, markets, Herman's will reportedly focus on ski markets in its Northeast stronghold for future units.

Management at the chain said that sales of cross-country ski gear were particularly strong in 1979. Other outstanding categories for the chain were racquetball equipment, rugged outerwear and roller

(Continued on page 10)

Automotive

Western Auto Does $698M Despite 450 Closings

KANSAS CITY, Mo.—Western Auto, the giant specialty chain, continued to close stores in 1979, finishing the year with 3,450 outlets, down from more than 3,900 the year before. The chains will close an additional 50 units by the end of this year.

In sales, however, this subsidiary of Beneficial Management Services continued to lead the field with $698.1 million reported for fiscal 1979.

Still, "we're pessimistic about 1980," reported Ken Brown, controller. "We're located predominantly in rural markets and our farmer customers are really feeling the pressure of the high interest rates."

Only 300 of the chain's stores are located in major market sites.

"We are not willing to make a capital investment in new stores at this time," Brown said, adding that the store closings represent chain efforts to streamline itself and improve sales performance.

Adding to the company's pessimism is its dependence on installed sales for a considerable portion of its volume.

We rely too heavily on installation services to be buoyed by the news that most auto chains prosper in recessionary times when more consumers do repair projects themselves, Brown said. Even worse, the chain's profitability also relies heavily on big-ticket sales (appliances, TV's). Brown declined to comment on what percentage of sales came from those items.

Health & Beauty Aids

H&BA Discounting to Boost Revco Volume Over $1B

TWINSBURG, Ohio—Revco is set to become the first discount drug specialty chain to break the $1 billion volume mark by doing what it does best: discounting health and beauty aids.

The company is projected to generate $1,050,000,000 in sales in its current fiscal year, a 13.2% jump from the $927,533,000 reported for the fiscal year ended June 2, 1979.

That volume was a 17.1% increase from the previous fiscal year's $792,033,000. Net income registered a slightly smaller 14.5% boost, going to $33,636,000 from $29,376,000.

Revco's percentage gains in sales and earnings outpaced the percentage increase in stores during the two fiscal years; the count went to 1,143 from 1,030, an 11% increase.

The chain, besides aiming for a new sales plateau this year, is continuing the fast-paced expansion that saw it open the doors of about two new stores a week.

The store expansion program calls for Revco to unveil 80 new units during the last half of the year to maintain its status as the discount drug chain with the greatest number of units.

The 1,250 units in operation at the start of May 1980 include about 40 stores opened so far this year.

Revco, which has stores in 24 states and has focused heavily on markets east of the Mississippi River in past years, will emphasize Sunbelt areas this year.

(Continued on page 20)

Specialty Chain Census | Toys

Child World Invades Chicago, Minneapolis; Ups Store Count to 66

11 Toy Chains Add 69 Units in Year, Plan Over 51 More by End of '80

Chain	No. of Units May '79	May '80	Dec. '80	Sales in Millions* Last fiscal year
Toys 'R' Us	72	85	100	$480.3
Child World	60	66	70-72	158.4
Lionel Leisure	45	65	75	156.0
Circus World	87	111	120	63.0
Toy City	13	16	18	37.0
Toy World	40	45	51	24.8
TSW	10	10	11	11.0
Hobby Center	20	21	23-24	8.4
Play World	15	12	13-14	N/A
Playhouse	16	14	N/A	N/A
Toyco	10	12	13	6.2

** Some volume figures are DSN estimates*
N/A—not available

Eleven top toy specialty chains added 69 units since last year and have over 51 more scheduled by the end of this year. Circus World is the leader in store units, although the small stores give the chain less volume than leader Toys 'R' Us. (DSN research)

AVON, Mass.—Child World, experiencing significant growth in its Children's Palace chain in the Midwest, has increased store count 10% from last year to 66 units.

"Most of our growth is coming from the Midwest," Child World's executive vp of operations Bruno Ferretti told DSN. "We are not sure how many units we will be adding during the remainder of this year, but it will probably be between four and six, and in existing markets."

Child World broke into the Chicago and Minneapolis markets this past year, with prototype stores of 36,000 sq. ft. (The company uses the Children's Palace name in the Midwest.)

The chain also added to existing markets in the Northeast, with stores in Levittown and Selden, Long Island; Danvers, Mass., and Rockaway, N.J.

Child World has been building its large stores as free-standing units, but management likes the space, because "we have enough room in our stores to do what we want," Ferretti said.

Although the net gain in store units has been six, Child World has been building at a faster rate because of store closings. Ferretti said the chain is continuing to close old stores "that are small and do not conform to our present prototype size."

Electronic games have not cut into other merchandise in terms of space investment, Ferretti said, because of the large store size.

Volume for the latest fiscal year at Child World was $158.4 million, a 13% increase over the previous year's $139.8 million. Ferretti was reluctant to make any projection of this year's volume.

Wary of Petrie Takeover

(Continued from page 7)

Merrill Lynch said they "believe that Petrie's ownership is not a reason . . . to be less optimistic about the growth possibilities of Toys 'R' Us." The analysts believe Toys 'R' Us's earnings will rise by at least 20% a year over the next three to five years, in part because of the chain's store expansion program and visible opportunities to gain market share in a highly fragmented industry.

Lazarus said the strong results reflect the company's ability to increase its market share. The chain added 13 stores in 1979, boosting its count to 85.

This year, the chain hopes to add 15 stores, including a new market area for it in the Pacific Northwest. A company spokesman said that Toys 'R' Us will open in Seattle and Portland, Ore., area this fall. The chain will start off with four stores, plus a distribution center to service them.

Since last year the toy chain has also opened in Texas and Oklahoma, with one store in Oklahoma City and four stores in the Dallas-Fort Worth area. Toys 'R' Us also opened a distribution center in Dallas to support the stores.

Lazarus told securities analysts that the chain has targeted a 25% annual growth rate and plans to enter a new market every year.

Lazarus said future plans include an entry in the Philadelphia metropolitan market in the fall of 1981.

Although Toys 'R' Us has actually fallen behind Circus World in number of store units, its large stores keep its volume far ahead of the 3,500-sq.-ft. Circus Worlds.

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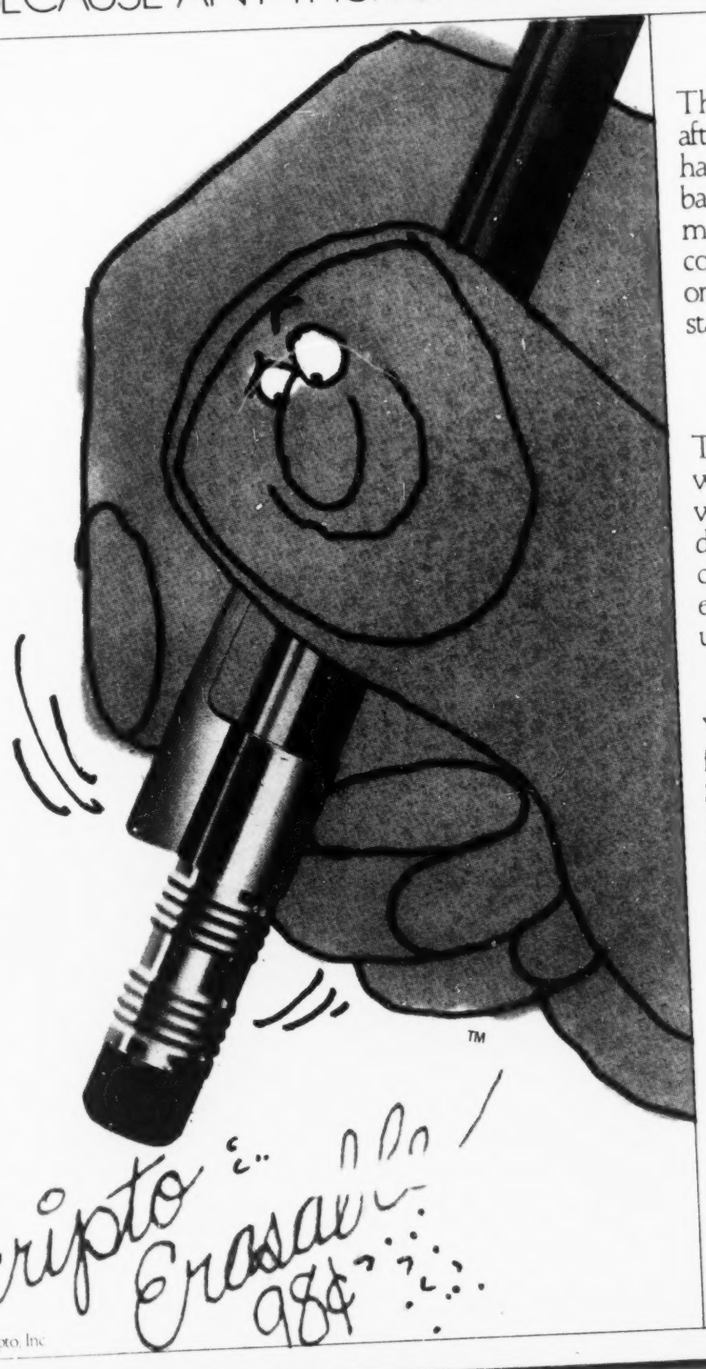

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Lionel Leisure Crashes Southwest With Fun City Buy

PHILADELPHIA—Lionel Leisure's recent deal to acquire nine Fun City stores as its debut in the Southwest helped boost store count at the acquisition-minded chain 44% above last year's 45.

For an undisclosed amount of cash and notes, Lionel Leisure took over nine stores from the THH corporation, a privately owned retail and wholesale toy company.

The stores, now operating for Lionel Leisure under the Fun City banner, are in Houston, San Antonio, Austin, Lubbock and Amarillo, Tex.

A spokesman at Lionel Leisure said the company is "very excited about moving into the Southwest."

"We have done studies that show there will not be much difference in merchandising, so we don't anticipate any problem there. However, you learn by operating."

The spokesman said the Fun City name will probably be changed by fall (Lionel Leisure operates its stores under the titles Kiddie City, Playworld and Lionel Toy Warehouse).

The Fun City stores are

(Continued on page 12)